



Millennium Challenge Corporation

Reducing Poverty Through Growth

November 28, 2005

We wish to inform of Millennium Challenge Corporation's (MCC) decision to suspend Yemen's eligibility for assistance under MCC's Threshold Program for FY04 and FY05.

Under MCC's Policy on Suspension and Termination of Assistance and/or Eligibility for Assistance, MCC may suspend or terminate eligibility for assistance if the MCC Board of Directors makes a determination that one of three circumstances occurred, including that a country has engaged in a pattern of actions inconsistent with MCC's selection criteria, as evidenced by, among other things, "an actual decline in performance on the indicators used to determine eligibility as reflected in the data" for the MCA.

As illustrated in the attached charts, Yemen's performance has declined on eight policy indicators since being selected for Threshold Program eligibility in FY04, four of which it now fails: Corruption, Regulatory Quality, Trade Policy and Fiscal Policy. Yemen now passes only two of sixteen indicators. As a result of this material decline in overall performance on the MCA selection criteria, MCC's Board of Directors decided to suspend Yemen's eligibility for Threshold Program assistance. Yemen was formally notified of this suspension, and the basis for it, on November 22, 2005.

Under MCC's Policy on Suspension and Termination of Assistance and/or Eligibility for Assistance, the Board of Directors may reinstate eligibility for a country that was subject to a suspension if it is determined that the country has taken corrective action or has demonstrated a sufficient commitment to correcting each condition for which eligibility for assistance was suspended.

Members of MCC's staff are available to meet with you at your convenience to discuss this suspension. If you or your staff would like to arrange a meeting, please contact Jake Stefanik at (202) 521-3856.

Sincerely,

Frances C. McNaught
Vice President
Legislative and Public Affairs

Enclosure:
As Stated

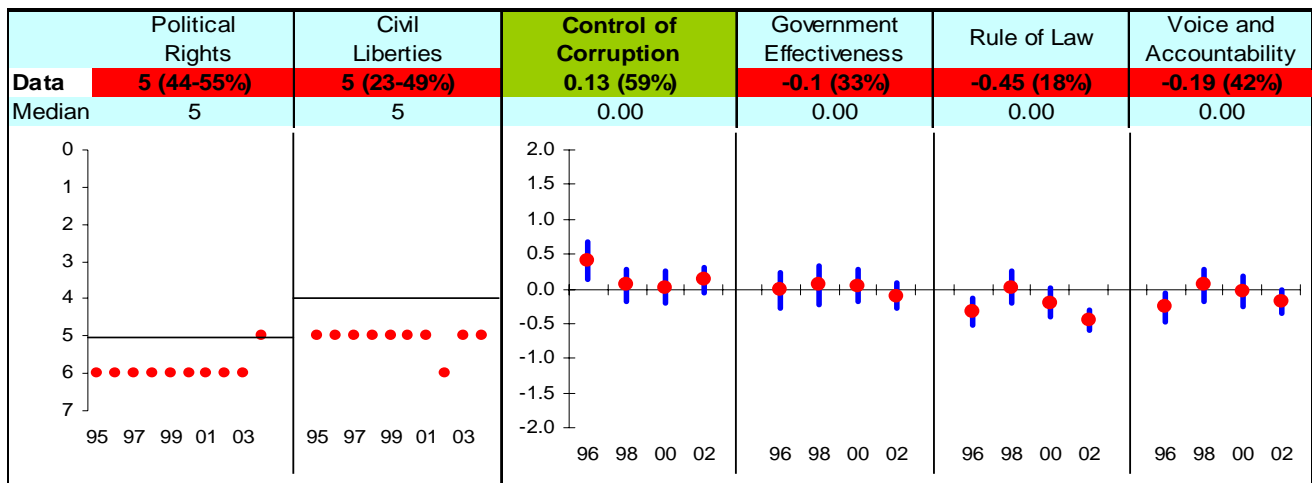
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Washington, DC 20005
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Yemen's performance has declined on eight policy indicators since being selected for Threshold Program eligibility in 2004, four of which it now fails: Corruption, Regulatory Quality, Trade Policy and Fiscal Policy. Below we provide a short description of the policies being measured by these eight indicators.

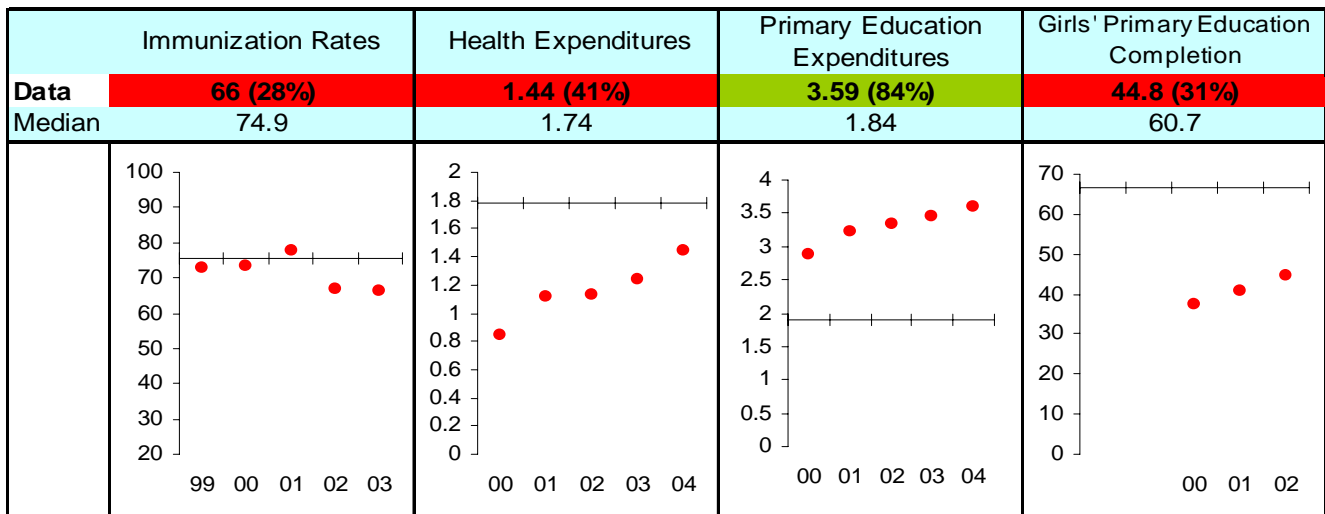
1. **Voice and Accountability:** An index of surveys rating countries on: institutions' ability to protect civil liberties, extent of citizen participation in government selection, and media independence. Source: World Bank Institute.
2. **Control of Corruption:** An index of surveys rating countries on: the frequency of "additional payments to get things done," the effects of corruption on the business environment, "grand corruption" in the political arena and the tendency of elites to engage in "state capture." Source: World Bank Institute.
3. **Public Expenditure on Health:** Total expenditures by government at all levels on health divided by GDP. Source: National Governments.
4. **Public Expenditure on Primary Education:** Total expenditures by government at all levels on primary education divided by GDP. Source: National Governments.
5. **Inflation:** The most recent 12 month change in consumer prices as reported in the IMF's International Financial Statistics or in another public forum by the relevant national monetary authorities. Source: Multiple.
6. **Fiscal Policy:** Overall budget deficit divided by GDP, averaged over a 3 yr. period. The data is provided directly by the recipient government but is cross checked with other sources and made publicly available. Source: National Governments and IMF WEO.
7. **Trade Policy:** A measure of a country's openness to international trade based on average tariff rates and non-tariff barriers to trade. Source: The Heritage Foundation's Index of Economic Freedom.
8. **Regulatory Quality:** An index of surveys that rates countries on: the burden of regulations on business, price controls, the government's role in the economy, foreign investment regulation and many other areas. Source: World Bank Institute.

Yemen, Rep. FY05

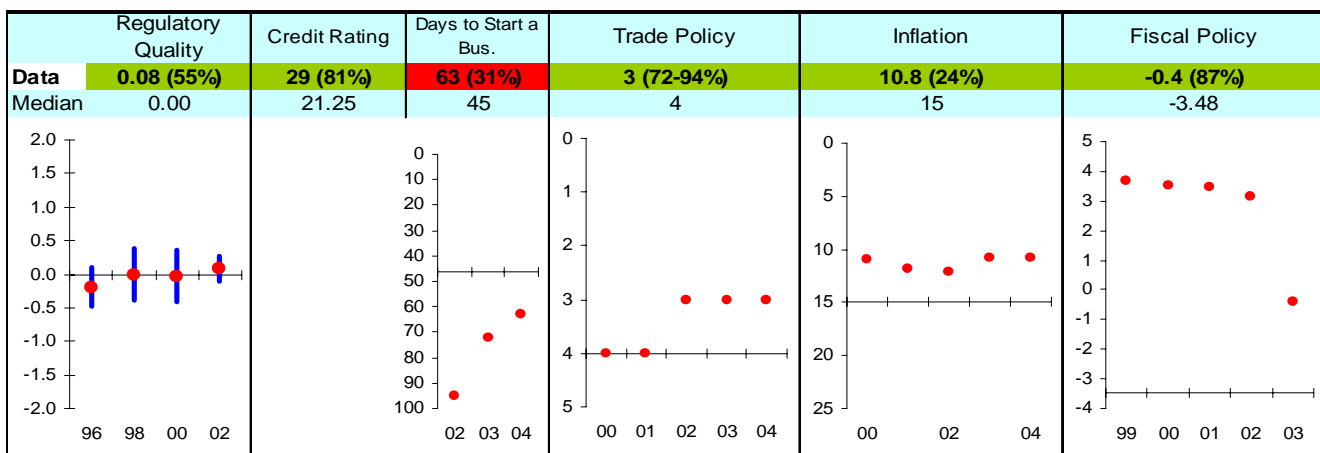
Ruling Justly



Investing in People



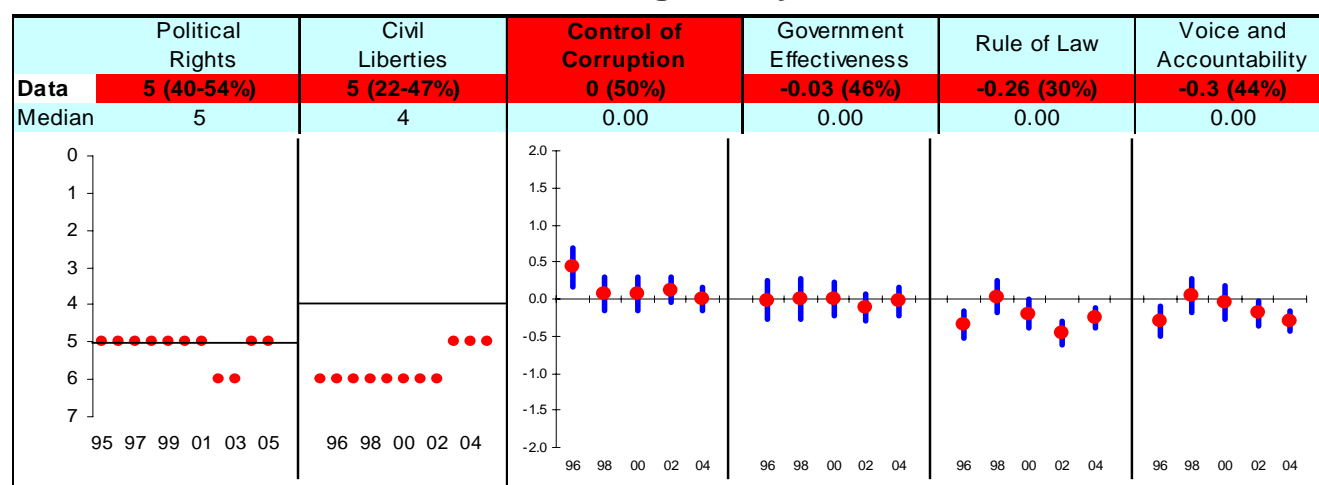
Economic Freedom



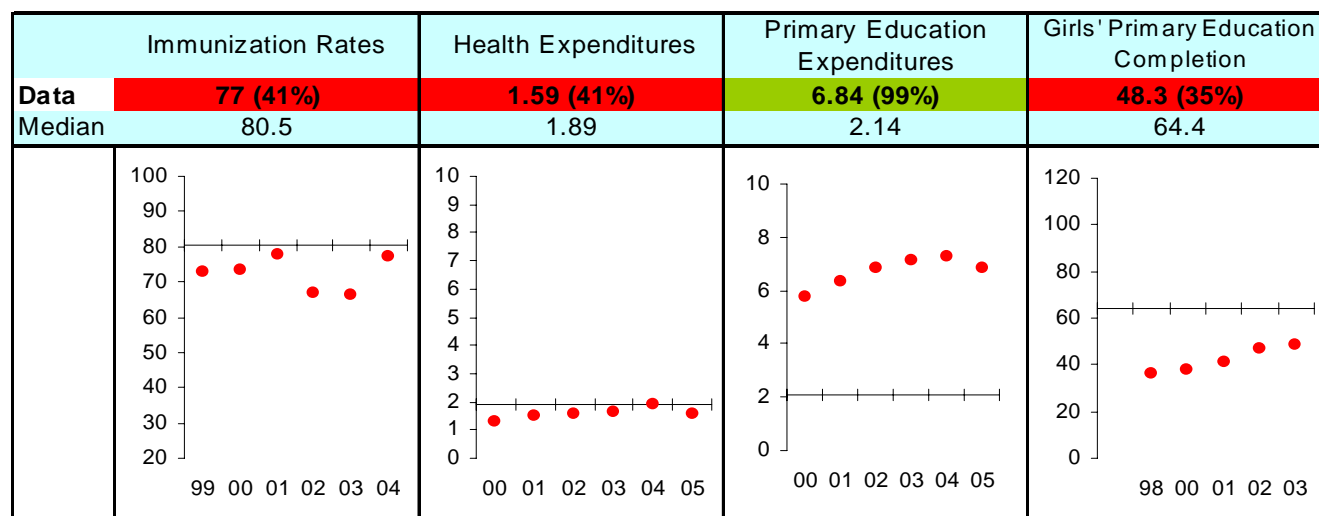
Note: The Board of the MCC will consider performance under these indicators plus qualitative and other materials in choosing countries eligible to submit compact proposals to MCC. The first number is the country's score and percentage in () is their ranking relative to other candidate countries (0% the worst, 50% the median, and 100% the best.) Graphs: higher is better, the horizontal-axis has been drawn through the median, the red dot is the data point, and the blue vertical bar is the standard error. Indicators highlighted in green are above the median as currently calculated and those in red are below. Medians may change as new data becomes available.

Yemen, Rep. FY06

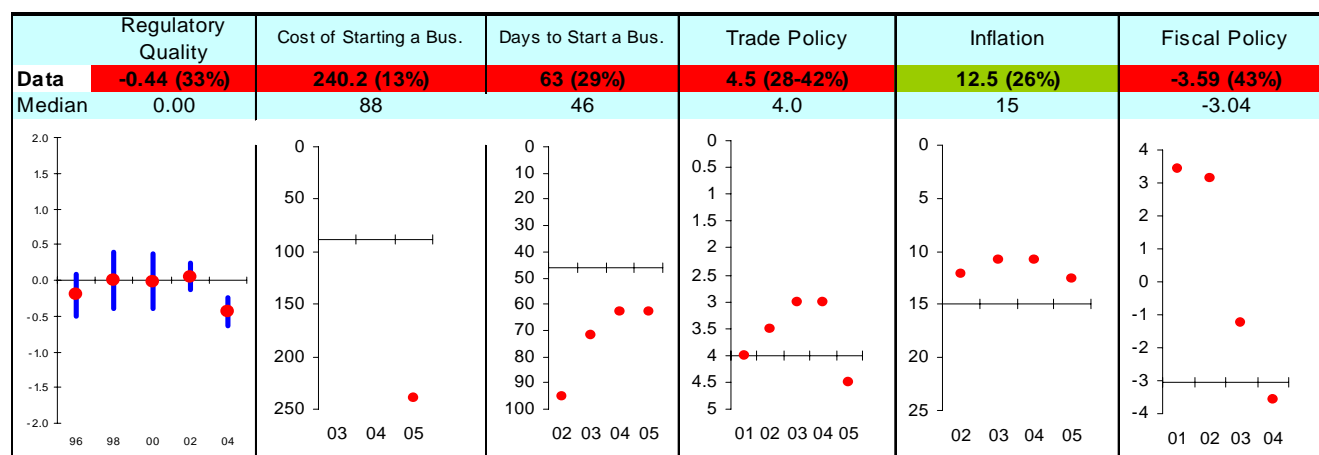
Ruling Justly



Investing in People



Economic Freedom



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